February 17, 1960

Investor's Reader

For a better understanding of business news

ESIDENT BOONE GROSS HELPS HONE GILLETTE'S FUTURE (see page 19)

SIMIAN SNAPPER

When the National Photographic Show opens tomorrow at New York's Coliseum one of the star attractions will be Westinghouse Electric Corp's ambassador-with-a-flashbulb, Zippy the Chimpanzee. Much-photographed Zippy has been known for years to Tarzan movie fans; he plays the role of Cheeta. At the Photo Show his function will be to pose with visitors and show them the ease with which flash cameras can be used.

The leading entrepreneur of Zippy Enterprises of Freeport, Long Island, the versatile chimpanzee will help Westinghouse show off some interesting new photographic products. One is a newly designed perforated box to package flashbulbs; it makes for easier handling by both retailers and their customers. Also on display: the Focus-Lok, a gimmick which lines up the projector's lenses with the lamp to insure precise light positioning; a compact 4-pin wafer stem projection lamp (three inches shorter than ordinary ones) for motion picture and slide projectors; a projection lamp with a molybdenum reflector sealed right in the bulb which throws more light through the projection system and reflects heat back to the filament, thus increases its efficiency.

But Westinghouse's biggest participation in the photo field is flashbulbs. While General Telephone's Sylvania division is the leader by a goodly margin in this branch of the light bulb industry, GE and Westinghouse are in hot competition for the No 2 spot. And all three have fared well in the photographic boom which has seen industry flashbulb sales grow from a meager 2,100,000 in 1930 to 618,000,000 in 1959 and an estimated 650-to-675,000,000 units in 1960.

Photo equipment is of course a small part of Westinghouse's wide variety of electric and electronic activities which range from light bulbs to atomic reactors. But it all helped pile up near-record 1959 earnings tentatively figured at $85,950,000 or $2.43 a share (including a special credit of 21¢ a share) v $74,770,000 or $2.12 a share in 1958 (after 22¢ nonrecurring credit) —all figures adjusted for the 2-for-1 split effected the first of the month.

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BUSINESS AT WORK

INFLATION
Land-Locked Costs

HOUSE HUNTERS who have watched price tags on even a semi-dream home spiral right through the cathedral-ceilinged roof can pillory a new villain: it's not the construction costs but the cost of the underlying land which is chiefly responsible for their plight. Time Inc's *House & Home* reports during the past ten years land prices have climbed 8% annually, about twice as fast as building material prices and building wages. And the magazine mourns: "Nobody is doing anything to stop it."

FOREIGN FRONT
Talcott Heads for Europe

WITH THE ADVENT of the European Common Market (IR, September 16) and the European Free Trade Area, many industrial firms, banks and brokerage houses were quick to step up their own foreign operations. On the other hand such businesses as finance and insurance companies have been slower to move. Last fortnight however 106-year-old factoring firm James Talcott Inc announced it would take the transatlantic stride and open its first foreign office in Rome within 60 days, a second in London by summer.

In doing so, Talcott's chairman Herbert Silverman (IR, June 10) claims his company will be the first to offer "a complete line of industrial financing services" on the Continent. Competitor Beneficial Finance Corp which has already opened a London office offers only consumer finance.

The Talcott move is freely labeled "the beginning of an international network of such offices." Herb Silverman notes: "We are currently studying West Germany and Holland to see how we can fit in there."

The new offices will be financed

with equity capital put up by European nationals and loans from both local banks and parent James Talcott. Dealings will be entirely in dollars by local companies which have US banking connections. Says chairman Silverman: "We will not be in the business of foreign exchange."

News of the expansion plans coincided with other good Talcott tidings, namely an excellent year-end report. Specifically, 1959 earnings came to $3,287,000 or $3.16 on 961,000 shares, a big jump from the $2,265,000 or $2.63 netted on 787,000 shares the year before. Receivables leaped over the $1 billion mark from $846,000,000 at the end of 1958.

Talcott's stock reflected the gains and for the eleventh straight time finished the year higher than it began. It now trades at 49 *v* a 1959 low of 29.

Magnavox on the Move

CONSUMER PRODUCTS producers have been more readily lured abroad than finance companies. Just while Talcott was planning its first European entry the Magnavox Company of Fort Wayne which specializes in premium-grade radio, TV and stereo equipment along with some defense electronics announced the first step in what president Frank Freimann calls "a sales extension which will later take in all of Europe and eventually take in most of the world."

A longtime supplier of military electronics gadgets to NATO, Magnavox has held aloof from foreign consumer markets. But no longer. The $53,000,000-assets electronics maker has just acquired "for an undisclosed cash amount" a majority interest in Collaro Company, a subsidiary of British chain merchant Great Universal Stores. The move seems logical. Collaro makes "high quality" record changers, tape recorders and reproducing machines plus "related" electronics items. "For several years" it has supplied Magnavox with record changers incorporated into the Hoosier firm's US-built equipment.

Now Collaro will also make Magnavox sets and will utilize the well-developed retail network of more than 2,700 Great Universal stores to market them in Britain, Canada and other parts of the Commonwealth. This conforms with a distribution pattern long followed by Magnavox in the US where it is the only major TV set company which sells its brands directly (and exclusively) to its retailers. It also makes private label goods for some department stores.

The Magnavox expansion aims to project a '60 image even brighter than fiscal 1959. Magnavox tallied record sales of $90,620,000 in the year ended last June, up 10% from fiscal 1958. Profits came to $3,360,000 ($1.43 a share) as against $2,620,000 ($1.25) the year before. Peak profits year was 1957 when Magnavox earned $1.95 a share on $87,470,000 sales. The figures are adjusted for a 2-for-1 split last November.

Since Magnavox is in the midst

of changing to a calendar year, president Freimann has also made some estimates for calendar 1959—namely sales around $108,000,000 and earnings of roughly $1.90 a share. For 1960 the optimistic president expects sales in the $135-to-150,000,000 range and a net of $2.50-to-$3 a share.

STEEL
Specialized Carpentry

LOOKING HALFWAY down the Sixties, president John Moxon of $61,000,000-assets Carpenter Steel Company last fortnight told the Security Analysts of New York where his corporate planners expect the company to be in 1965.

- He figures to pave the way with capital expenditures of $20-to-25,000,000 in the next five years compared with a little less than $15,000,000 in the previous five.
- By 1965 sales should amount to $125,000,000 and earnings around $6-to-7 a share, better than half again as good as the best years to date.
- And to titillate his hearers, president Moxon put forth his five-year plan for dividends: in 1965 the level should be $3-to-$3.50. This compares with payout in the last twelve months of $1.75—counting regulars and extras and adjusting for October's 2-for-1 split.

These optimistic projections were distinctly labeled as "plans, not predictions" by president Moxon "though I might say that plans often come a lot closer to reality than predictions."

The background for announcing them could hardly have been more propitious. Carpenter has just racked up a big first half (the company is on a June fiscal year) showing earnings of $4,376,000 or $2.36 a share *v* 53¢ in the like period a year ago. For the full year Carpenter is expected to earn a fat $4-to-$4.25 a share *v* a fiscal 1959 total of only $2.46.

A big help has been the uninterrupted operation of the company's main plant in Reading, Pa throughout the industry's long strike. Only the Union, NJ tube mill was struck, and that for only six weeks during the Fall.

Stainless Career. Carpenter Steel has confident views about the growth of its chosen aspect of steel making, the specialty steels. About half of the company's production is stainless steel and the remainder is about evenly divided between tool steel and special alloys. Its major customers include the automobile, aircraft, machinery, tool and electrical equipment makers.

The specialty steels, president Moxon explains, require a good deal more technology than tonnage production. "It requires very skillful selling. Our salesmen have to be a combination of metallurgists, machinists and crystal ball men." Because of this high degree of technology, prices of typical Carpenter Steel items run around $1,200-to-1,300 a ton, considerably higher than the $140-to-150 a ton for the less sophisticated high-volume items of other companies.

President Moxon expects most of Carpenter expansion to be in the

Carpenter tips the ladle

field of stainless steel products. "The current 50% of our output in stainless steels compares with 33% not so long ago." He adds: "You could even raise that 50% a few points if you threw in some of the high-temperature, corrosion-resistant steels we are making."

A big factor in the company's projections is subsidiary Carpenter Steel of New England. This is the Bridgeport, Conn steel-for-New England project launched in 1954 as the Northeastern Steel Corp. Northeastern went bankrupt and in October 1957 Carpenter acquired the plant (over $13,000,000 original cost) for 40,000 pre-split shares then worth about $2,800,000 plus assumption of a $6,000,000 issue of 4½% bonds due 1970. Carpenter still has a little less than half of the $7,000,000 tax loss carry-forward obtained with the subsidiary.

The new owner turned the facility into a going concern. Now being revamped to produce higher grades of specialty steel, the New England subsidiary currently has 35-ton electric arc furnaces. Additional cold-rolling equipment is also being installed.

The Northeastern addition gives Carpenter a steel production rate of 6,000 tons a month *v* 4,200 before the acquisition. "By the next two years we should be able to ship on the sunny side of 7,500 tons a month."

Once upon a time—1903 to be exact—Carpenter Steel itself went bankrupt. But it soon snapped back to profitability and since 1907 has paid a dividend in every year, "a policy we have no present intention of changing." By way of emphasis the company split its stock last October and since that time has paid two quarterly dividends of 30¢ (*v* an adjusted 25¢ previously) plus an "annual" extra of 45¢ at the year end

and a beginning-of-the-year extra of 20¢.

President Moxon explains: "We are considering putting our extra dividends on a semiannual rather than an annual basis."

Adjusted for the split, Carpenter's 1,852,000 shares sold as low as 10 in 1954, 20 in 1958 and 36 at the start of last year. Last Fall the stock rushed to an alltime high of 62 but in line with the rest of the stock market it has retreated lately. It now sells around 48 on the Big Board.

Naturally Carpenter must keep an eye on its competition as it seeks to achieve its goals for the next half decade. Carpenter is 41st in size among about 80 companies, which president Moxon jokes "makes us half as big as US Steel." While the giants of the industry are rivals to some extent, specialist Carpenter's main competitors are Allegheny Ludlum, Crucible Steel, Union Cyclops, as well as Latrobe Steel and Vanadium-Alloys.

Foreign competition of course is also present but John Moxon maintains it is less of a problem for Carpenter than for some other companies. "We have a selling and service organization to follow up our sales, something no one in Europe can do here easily. And besides, Europe needs a lot of steel itself. It's not going to have too much to ship here."

However he feels some of the smaller companies (and in this connection Carpenter is definitely "middle-sized") may be in danger of being "trampled by the European elephant."

RETAIL TRADE

Kroger Bids for More Profits With Bigger-Volume Stores

PARADOXICALLY Midwest and Southern food chain Kroger Company finds it has grown bigger and richer as it became smaller. In its first half century Kroger grew from a single Cincinnati grocery in 1883 into a 5,575-store chain. But since then the No 3 food chain (after A & P, Safeway) has shifted emphasis from numerous small, high-cost units to fewer large-volume stores. This has been the industry trend but Kroger's store revamping has been unusually extensive.

Result: while there are now only 1,400 Kroger stores or just one-fourth the former number, company sales have increased eightfold from $244,000,000 in 1929 to $1.9 billion last year.

Kroger's bigger-volume stores have also packed bigger profits. In fact the company has scored record earnings each year since 1952 and for 1959 president Joseph Hall estimates "we had another record in the general area of $2 a share." This compares with the $21,630,000 or $1.76 a share earned in 1958. President Hall also notes: "The percentage improvement in our profits was greater than our sales improvement."

President Hall attributes Kroger's good showing to two things: benefits from the consolidation into fewer but more efficient sales units and the set-up of new divisional distribution centers. He notes: "All but three of our 26 divisions now

Much change since 1883

have modern, efficient distribution centers." Kroger may soon be fully modernized. Another distribution center will get underway this year and two more are "under consideration."

Kroger's store replacement program is also leveling off. Notes president Hall: "The peak of our capital expenditures program to replace and improve our physical properties has passed. From now on fewer new stores will be opened and fewer old ones closed." The company planned to open 100 stores last year but "tighter money and higher interest rates slowed down" the program and only 86 were added to the chain.

For 1960 headman Hall expects "our new stores program will be comparable to 1959. Small, uneconomical, or even marginal stores will be closed, the number about equal to those we open." As for location Kroger "recognizes the trend toward suburbia." About half its new stores will open in suburban shopping centers.

Unlike many of its competitors Kroger has not delved heavily into non-food items. The reason, as grocer Hall cautions: "Much non-food merchandise, particularly the larger appliances, sells slowly, ties up more money in inventory and in the long run returns less dollar profit." However he emphasizes: "I don't want to give the impression Kroger has a fixed attitude toward non-food items. We do handle quite a volume. Our policies are flexible and adaptable to meet changing conditions and changing demands." But he notes: "Kroger's major goal is to have the best food stores."

To further this goal the $331,000,000-assets company manufactures and sells under its own label a number of products such as instant coffee, canned fruits and vegetables. These goods have proved exceedingly popular and now account for about 9% of Kroger volume.

Also popular are trading stamps which grocer Hall explains "we've learned to like * * * they certainly have done and continue to do a

very fine merchandising job for us."

While Kroger pleases its customers with trading stamps it also satisfies its 35,000 stockholders with steady dividends which the company has paid ever since its incorporation in 1902. In December Kroger directors increased the quarterly rate a nickel to 27½¢ to bring the current yield on the 12,380,000 shares to 3.5%. The stock sells around 31 on the Big Board.

MANUFACTURING
Black & Decker Scores

ONE COMPANY used to beating its own sales & earnings projections is No 1 portable electric tool maker Black & Decker Manufacturing Company of Towson, Md. For example when interviewed by INVESTOR'S READER last Spring (IR, April 29) president Robert D Black was ready to settle for a 10% sales increase and a 25% profit rise for the year ended September 1959. The actual figures: volume rose 21% to $52,800,000 while net income was up 47% to $4,799,000 or $2.23 a share.

For fiscal 1960 the company has "budgeted a 12% sales gain and a 20% profit increase." But the December quarter beat this by a wide margin with volume up 23% while earnings gained 56% to $1,469,000 or 68¢ a share.

Prexy Black happily admits: "I think our estimates for 1960 sales of around $59,000,000 and net around $5,750,000 are now on the conservative side." He looks for a continuation of improved business "at least through our fiscal year," counts on both the June and September quarters to be "as good or better" than the December period.

As for the cause of the big B & D sales increases, Bob Black maintains "you can't put your finger on any one thing. Both our domestic and world markets have shown considerable improvement." About 30% of B & D business comes from foreign countries. He attributes the earnings rise to the fact "when billings go up our profits increase disproportionately as fixed overhead costs are absorbed."

Part of the gains come from the inclusion of Master Pneumatic Tool Company of Bedford, Ohio which Black & Decker acquired last April. Renamed Master Power Corp, the new subsidiary has given Black & Decker its first foothold in the industrial air tool market.

However the power-driven B & D drills, grinders, saws, screwdrivers, etc are still responsible for the bulk of company business. Industry and home owners each account for roughly two-fifths of volume; the remainder comes from replacement parts and services.

The good showing prompted B&D directors to vote a 2-for-1 stock split last September and raise the quarterly dividend on the new shares 20% to 30¢. Last month directors boosted the quarterly again to 40¢, driving the yield (on a $1.60 annual basis) to a relatively generous 4.3%. The 2,158,000 Black & Decker common shares which have ranged from 26½ to 42½ on the Big Board during the past year now sell around 38.

AUTOS

American Motors On

AFTER finishing fiscal 1959 (ended September) with results which left the experts blushing, the company which drove "compact car" into the US vernacular continues to bear up well. Despite the steel strike which stalled some of its big-time neighbors, American Motors Corp, which had managed to lay up enough supplies, was able to boost sales in the December quarter 35% to $261,-300,000 and pre-tax profits nearly 30%. However with no tax credit left to draw on this year the $12,-217,000 ($2.05 a share) netted after taxes was 42% behind the $21,000,-000 ($3.56) in the December quarter of 1959.

Now American Motors is getting a run for its money. It had a long lead but autodom's Big Three are in hot pursuit. In fact, while American Motors' January production of 40,836 Ramblers was the company's second best month ever, Ford turned out 45,038 Falcons in January; GM, 33,190 Corvairs; and Chrysler, 17,-676 Valiants. Last January the 34,-316 Ramblers stood practically alone as a domestic small car.

Undaunted, president (and proposed US Senate candidate) George Romney is cranking up for 500,000 cars this year, insists "our expansion program is continuing in an effort to catch up with Rambler demand which is exploding along with the whole compact segment of the automobile market."

Of course AMO (ticker symbol) stock has long since exploded. After floating in a 5¼-to-8½ range for three years, the nearly 6,000,000 shares started to climb in 1958, reached 97 a few months ago and at presstime sold at 83. A 3-for-1 split will take effect on the Big Board in early March; meantime "when issued" trading of the split shares proceeds briskly around 28.

Rambler station wagon goes on a picnic

FOODS

Fairmont Ferment

FOR SOMEWHAT over a decade the board of directors of Fairmont Foods Company has been supervising a sweeping change in the character of the company's labors. From a processor and distributor of butter, eggs and poultry, the 75-year-old Omaha company is becoming more & more a distributor of milk and ice cream. Lately it has also gone in for potato chips and cheese dips.

Vice president & treasurer Paul Seiger graphically pinpoints the transition. He notes butter, poultry, turkeys and eggs have shrunk to 19% of Fairmont's total sales in the year ended February 1959 compared with 73% in 1944. Meanwhile ice cream, milk and cottage cheese have risen to 71% of sales against a mere 16% in 1944.

The change was motivated by the progressively less profitable trend of the now-reduced product lines. The butter market of course melted under the big postwar gains made by margarine, now the No 1 tablespread.

The result of the changeover has this somewhat paradoxical aspect: though sales have declined, earnings have risen. Sales in fiscal 1958/9 dipped to the lowest level in four years, \$98,850,000 *v* \$104,016,000 the year before and \$103,191,000 in 1956/7.

But gratifying to Fairmont's reshapers was a climb in earnings to \$1,530,000 or \$2.40 a share in the February 1959 year from \$2.12 in 1957/8 and \$1.89 in 1956/7.

The paradox shows signs of waning; latest Fairmont figures show earnings for the three quarters ended November continue higher—\$1.94 a share *v* \$1.76. But while sales for this nine-month period trail a year ago by 1.3%, management reports "a nominal improvement" in sales during the third fiscal quarter, "indicating the downward trend resulting from the planned discontinuance of less profitable items has now been halted by increasing sales of milk and ice cream products and potato chips."

In its quest for a new personality, Fairmont has reduced its plant and equipment to the lowest level since 1948. The figure at the end of the last fiscal year was \$13,424,000, off from a peak of \$17,655,000 in February 1956.

Sale of plant and equipment and reduction of inventory has made available around \$5,500,000 in cash which can be used for expansion into other lines. Paul Seiger says Fairmont currently has active negotiations underway to acquire a dairy company "in the \$1-to-2,000,000 sales range."

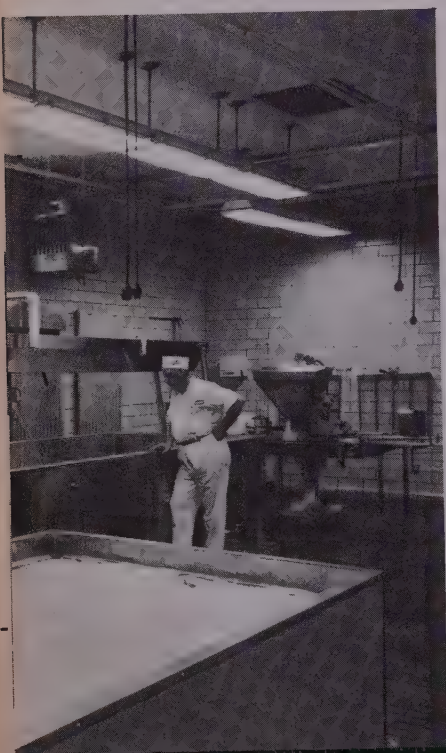
Actually, Fairmont has already taken an important diversification step with the purchase of Kitty Clover Inc, an Omaha potato chip manufacturer said to have an unusually high degree of automation and efficiency. Within the last year it came out with a new extra sturdy potato chip for use in cheese dips. Sales of the new Kitty Clover division in the nine months ended November were 9.4% over a year ago. Adds president Erhart Edquist profits were "15.2%

higher than the profit on which our purchase price was predicated."

The change in character of Fairmont Foods has been engineered through a board of directors which is almost entirely made up of outsiders. President Edquist and vp Seiger are the only management representatives on the board. Paul Seiger feels the preponderance of outside directors at a time the company is undergoing an important change "keeps us on our toes."

Ownership of the company is broad and there are 6,000 holders of the 640,000 common shares; "no one in management or on the board owns as much as 1% of the stock," says vp Seiger. The shares came to the Big Board two years ago, now trade around 33, slightly off from a 1959 high of 37. The stock sold as low as 17½ in 1957. Dividends are at the quarterly rate of 40¢ after five increases in the last five years.

Fairmont cottage cheese dip



UTILITIES
Orange & Rockland Records

WHILE LOTS of companies finished 1959 with record results, not many can claim the consistent score of Orange & Rockland Utilities. Last week the smallish New York State utility announced both record sales and earnings for the tenth consecutive year. Revenues rose 8% to $28,500,000, and despite an increase of $1,600,000 in operating expenses net income climbed to $3,500,000 or $1.56 a share from $2,900,000 ($1.29) in 1958.

Directors last month celebrated by raising the dividend 8% to $1 a year. However even with the liberalized handout the 1,900,000 Orange & Rockland shares, which trade over-the-counter around 30, yield only slightly better than 3%.

The $114,000,000-assets utility was formed in early 1958 by the merger of Rockland Light & Power and Orange & Rockland Electric (IR, Sept 3, 1958). The combine serves over 131,000 customers in a fast growing area which covers all of suburban Rockland, most of Orange and part of vacation-catering Sullivan counties. It extends 37 miles along the Hudson's west shore from six miles above the George Washington Bridge to slightly north of West

Point, reaches as far west as the Delaware River. Through subsidiaries the company also serves the adjacent northern-most slice of New Jersey (which yields at least one very important electric & gas customer: the new Ford assembly plant at Mahwah) and a tiny, five-community corner of Pennsylvania.

Orange & Rockland counts on heavy 1960 construction in this territory to produce record results again this year. A few examples: 6,000 new homes, 144 apartment units, 164 motels and 23 schools are all on the year's schedule.

To take care of the added demand the utility plans to spend $25,000,000 on new facilities in the next three years. With $54,000,000 in funded debt of which $6,442,000 is due in May 1961, president Charles Hulswit believes: "Some equity should be put into our picture prior to that bond maturity, the form and time we have not decided."

CHEMICALS
Interchemical Color

WHEN YOU BUY a package of cereal, or a new wrinkle-shed sports shirt or even just the morning paper, chances are Manhattan's Interchemical Corp profits from your purchase. For this ubiquitous company is a "prescription" chemical specialist with custom-tailored products to meet specific customer needs.

One of Interchemical's chief tailored products is printing inks. In fact it is the world's largest producer with 40% of the $200,000,000-plus market. The company also makes industrial coatings and finishes; textile colors and dyes; and for office suppliers it turns out carbon papers, instant copy paper and inked ribbons.

Last year these varied products brought in an estimated $123,000,000 sales or 12% more than 1958 while earnings may approach a record $3.25 a share *v* the $2.15 netted the year before.

Interchemical derives 38% of its sales from the packaging industry. It supplies printing inks for the outside of containers including a special new ink for frozen food packages. It also furnishes coatings and finishes for the inside container—these include plastic liners as well as corrosion resistant coatings for cans—and a variety of adhesives for firmly constructed cartons.

Another 15% of sales are brought in by printing inks, carbon paper and inked ribbons which Interchemical sells to newspapers, magazines and mail order catalog publishers; an additional 10% represents inks, adhesives and coated fabrics sold to printers and lithographers.

Textile printing colors, dyestuffs, adhesives and coated fabrics for the textile, plastic and leather industries accounted for 14% of 1959's sales volume. The remaining 23% comes from finishes, coatings, polyester resins and office supplies sold to a number of consumer product industries.

To insure this variety of products and uses, Interchemical spends about 3% of sales a year on research. Explains treasurer Claud Brown: "We carry on basic research as well as product development. We're special-

ists and the way to stay in front in our business is to anticipate the needs of our customers." The work is done at the company's central research lab in Manhattan, where the primary interest is in coloring materials, binders to carry color and methods to combine and apply finished color coatings to surfaces.

One recent development to come out of Interchemical research is a "sturdy and a little cheaper" instant copy paper introduced last November. For use in Minnesota Mining's Thermo-fax copy machines the new paper vies with 3-M's original Thermo-fax copy paper. Treasurer Brown notes: "It's selling well and will contribute to 1959 earnings. Demand has been such that we have increased production facilities."

In addition to these expanded copy paper facilities Interchemical plans to start construction on a new $5,000,000 industrial finishes plant this year in nearby New Jersey or Pennsylvania. As for external expansion "we are looking with more determination than ever before for profitable acquisitions."

This includes a good look at the European Common Market where "we are actively studying the possibilities of participating in the industrial expansion predicted for that area" and South America where "we are considering entry as a resident manufacturer in certain countries."

But closer in the future treasurer Brown looks at 1960 business: "If the broad spectrum of business goes up 5%, we're going to do a little better. We'll continue to keep ahead of the parade."

American Commercia

No 1 Barge Line Boosts Its Haul On Swelling River Traffic

ONE OF THE most fascinating changes in the transportation industry during the past several years has been the resurgence of river traffic. At one stage, of course, rivers were the highroads of American commerce. According to president Jacob Hershey of American Commercial Barge Line Company, a hundred years or so ago "the registered tonnage of Mississippi River steamboats exceeded the entire tonnage of the merchant marine of the British Empire." But then the iron horse increasingly drained off river traffic and "by the end of the Nineteenth Century river transportation as a significant service had ceased to exist."

But in the current century it was the railroads' turn to feel the backswing of the pendulum. Recites Jake Hershey: "There has been gradual development of waterways, pipelines and highway carriers with the result that the railroads' participation in total inter-city traffic has been reduced from 72% in 1900 to 46% in 1958 and an estimated 44.8% in 1959."

The old-style river boats have sailed to oblivion but today the waterways are crowded by modern diesel towboats whose blunt noses may push as many as 30 barges carrying 45,000 tons of cargo. They have helped tow the inland waterway carriers' share of inter-city traffic, exclusive of the Great Lakes,

from less than 3% in 1925 to 9.1% in 1958. Of course this still comes to only one-fifth the rail volume and two-fifths of truck shipments.

Reason for this threefold growth in three and a half decades is one of simple economy. Barge boss Hershey notes: "Whether measured in terms of dollars & cents, fuel, wages or investment in equipment, for commodities adapted to water transportation the floated ton produces the cheapest ton-mile." Barge rates average less than 4 mills a net ton-mile compared with 14 mills for the average rail rate while trucking is somewhat higher. The main disadvantage of river transportation is of course time. For example a typical trip from Chicago to New Orleans takes roughly twelve days whereas a train could do it in two or three days.

Rail Threat. But despite the marine advantage in average rates the rails threaten through selective rate cutting, a practice they hope to expand. Jacob Hershey says: "A very real danger exists if the public can be persuaded to tolerate the railroads' charging two and three times as much for the same service into inland-locked territories as they charge between river or coastal ports. By this device it is entirely possible to quickly dispose of water competition as, in fact, the railroads have very nearly done to the coastwise steamship industry."

So far at least the barges have been able to weather these attacks. Each year since the rails began their rate-slashing in 1955 inland waterway carriers have increased their share of the transportation market. But the barge carriers definitely feel the need for judicial and legislative protection against such "discriminatory" rail practices.

Just last month they scored a significant point when the Supreme Court upheld a lower court ruling against a railroad rate system which offered substantially lower rates. The basis for the barge line complaint was the railroads charge higher rates for the same rail haul (from a river port) for shipments if they reached the port by barge than if they arrived via another railroad. Such a set-up deprives shippers of savings from barge transportation. While the case was specific (it dealt with grain to the Southeast) the implications may be very broad and president Hershey hopefully states it appears "the rails are playing a losing game" on this issue.

Unregulated Haul. Still another form of competition comes from within the industry itself. Since certain types of shipments are not subject to ICC regulation "there are literally hundreds of independent unregulated carriers which operate on the river systems under specific private contracts." Among other points, these carriers, to attract business, can contract for transportation at secret rates just enough below the common carriers (which must stick to published tariffs approved by the ICC). President Hershey credits the unregulated business: "The rapid increase in traffic on the waterways has resulted in part from this

intensely competitive development."

While distinctions are often technical, regulated cargo is "basically anything which can be marked or counted," like iron & steel products, bags of sugar, autos, general merchandise, etc. Unregulated commodities are bulk shipments like petroleum, chemicals, cement, grain. However bulk cargo loses its exemption if it is carried in the same tow with one regulated commodity or any other three different items.

Most of the unregulated carriers are relatively small but include transport divisions or subsidiaries of some corporations eager to ship their own products and supplies. Also some of the common carrier barge lines do a brisk unregulated business. Prominent among these is American Commercial which does 40% of its volume in the unregulated category.

Merged Leader. With 51 towboats and 565 barges afloat on 6,000 miles of the Mississippi River system from the Gulf to Minneapolis, American Commercial Barge is the biggest inland water carrier of them all. Mississippi Valley Barge Line is its closest competitor.

Liquid toting barge

American Commercial achieved its existence, its No 1 status—and its intense participation in both regulated and unregulated cartage—through the 1957 merger of Commercial Transport Corp which barges mainly non-regulated petroleum, coal, grain and various chemicals, did an $8,500,000 business in 1959; and American Barge Line Company which concentrates on such regulated items as iron, steel, aluminum and sugar, did a $13,500,000 volume in 1959. Both basic units still operate as separate divisions under the overall supervision of American Commercial chairman Patrick Calhoun (the former American Barge head) and president & chief executive Jake Hershey (who came from "Transport").

Both partners also brought to the marriage some interesting subsidiaries which provide almost half the company's consolidated volume. American's shipbuilding subsidiary, Jeffersonville Boat & Machine Company, builds and repairs for both its parent and other companies. One of its products is the 1957-built, 3,200-hp diesel towboat *Philip Sporn* (see picture) with which American Commercial pushes barges of coal to the Indiana plant of Ohio Valley Electric, the company formed by eleven utilities to furnish power to the Portsmouth, Ohio AEC plant. American Electric Power is the largest (38%) corporate stockholder in Ohio Valley and AEP boss Philip Sporn serves also as Ohio Valley president.

For its dowry, Transport brought along an integrated truck-barge service for transporting autos: subsidiaries Commercial Barge Lines (6% of consolidated revenues) which carries motor vehicles on the Mississippi and Commercial Carriers (28%) which trucks from manufacturers to dealers in the Midwest, South and Southeast as well as to & from Commercial Barge terminals.

More Autos. Last Summer ABR (as the company is known on the Big Board) extended trucking operations with the purchase of Western Auto Transports which hauls new cars from Detroit to the Far West. Prexy Hershey reports: "Western is now completely integrated with Commercial Carriers." And after a 1958 loss of $129,000 on revenues of $6,400,000, Western "showed a profit last year." One route to extra profits has been the additional 30 new closed vans (cost: $10,000 each) which permit the West Coast-bound trailers to cart farm products on the way back, eliminate a long and costly dead-heading operation.

For ABR as a whole, revenues in the first eleven months of 1959 rose 19% to $41,600,000 while net climbed 32% to $3,049,000 or $1.96 a share. For the full year Jake Hershey predicts earnings of "approximately $2.10 a share compared to $1.79 for 1958." But the company still has a way to go before matching the 1957 peak when, on a pro forma basis, the company earned $2.63 a share.

Last year's increase was achieved despite a five-month strike by ABR's

ABR's Philip Sporn

common carrier division which moves regulated goods. To compensate, the company hired outside towboats to move its shipments. It also worked hard on barging unregulated commodities and the auto transport business gained. Prexy Hershey believes the company's policy of broadening its transportation services had "apparent rewards during this period."

For this year executive Hershey predicts "volume should be greatly increased." Wall Streeters agree, especially with 1960 slated as a good auto year. In addition iron ore from South America is expected to become increasingly important and will mean extra business for ABR which can barge the ore from the Gulf to Midwest steel mills.

Furthermore prexy Hershey sees "nothing which will alter profit margins." In November the company settled for a three-year pact with 5% annual wage increases but this is "expected to be offset by the greater efficiency of two 6,000-hp boats to be built this year."

So far the 1,500,000 ABR shares have not reflected this optimism. Since listing on the Big Board last August, they have ranged between 26 and 20, now trade around 21.

WE HEAR FROM . . .

Billions for Storage

FAIRFIELD, CONN

GENTLEMEN:

In the last paragraph of "Million Dollar A Day Baby" (IR, January 20), you quote Secretary Benson as placing the present cost to taxpayers of just storage, interest and handling (on surplus farm holdings) at half a billion dollars a year.

I have before me a report from Mr Benson entitled *The Farm Program Can Be Solved* in which he brings forth six "Facts" * * * Fact No 4 reads: "The cost of storage, handling and interest on these stocks (surplus farm commodities) is *over a billion* dollars a year—this is just the overhead cost of holding the surpluses." He adds that by next July, we will have about $3½ billion tied up in surplus wheat alone.

It isn't that we wish to add more fuel to the fire, but this was the information as reported over WICC in a recent "Vibrations" business news report.

Very truly yours,
HERBERT W JANZER
WICC and WICC-TV

While Secretary Benson and his Agriculture Department associates have used a great variety of figures, the $1,250,000 a day (half a billion a year) cited by IR presumably should have referred only to wheat. But whatever the right amount, it's an awesome sum for an awful problem.—*Ed.*

Republic Soul Searching

DAYTON

GENTLEMEN:

Members of the F-105 Weapon System Project Office, AMC Aeronautical Systems Center applaud and support Republic Aviation Corporation's "Declares War on Costs" (IR January 20). Vice president and general manager Harley Jones and materials director E I Little have shown determination and imagination in their approach to today's cost "barrier" which threatens all weapon system production.

Republic's evangelistic cost reduction effort was stimulated by some earlier soul searching prayer meetings with the buyer. Air Force management stabilized F-105D design 24 months ago. Ten months ago the second fiscal year buy was placed on Fixed Price Incentive contract with firm target from the outset. Three months ago the Chief of Staff USAF directed an Air Force "Value Analysis" of the whole F-105D Weapon System which reduced the aircraft unit cost $45,000. Government Furnished Aeronautical Equipment Buyers are closely controlling costs of items furnished Republic.

Together, the Air Force-Republic team is determined to set a record in Government-industry partnership in cost control.

Very truly yours,
PAUL E HOEPER, Colonel USAF
Chief, F-105 Weapon System
Project Office
Wright-Patterson Air Force Base

Intelligent Swallow

WASHINGTON, DC

GENTLEMEN:

Reference page 19 of your January 20 issue.

Not that any investor, per se, will give a hoot, but (a) the Army does not consider the Swallow to be a missile, (b) the Army designation of this drone is the AN/USD-4, and (c) it will not be "used" by the Army Signal Corps. This medium endurance drone is being developed to enhance the Army's combat intelligence capability and will be used by Army Aviation and Intelligence Units organic to a field army. The Signal Corps is the developing and contracting agency only, and will not be a user as in the content of your otherwise excellent article.

Very truly yours,
A C THOMSON, JR, Major, GS
Office of Assistant Chief of
Staff for Intelligence
Department of the Army

Thanks to Colonel Hoeper for illuminating additional background on Republic's cost reduction program for the Air Force and to Major Thomson for a more correct and complete report on Republic's Army project.—*Ed.*

MACHINERY

Warner & Swasey Counters Industry Cycles With Diversified Lines

FOR more than two decades machine tool maker Warner & Swasey Company of Cleveland has nationally advertised such anti-inflation slogans as "If you want higher wages, make sure of higher profits." Whatever the effects on its audience, Warner & Swasey itself seems to have taken its own advice. In all but one of the past 27 years it has managed to turn in a profit—an impressive showing for a company in the highly cyclical machinery industry.

While the industry by & large was still in the lackluster part of the cycle, last year was quite a festive one for W & S. It recovered virtually all of the recession-imposed dip in 1958 sales & earnings. Specifically, sales rose 40% to $55,000,000 or nearly back to the peacetime high of $56,350,000 in 1957. Profit margins widened as net more than tripled from the $1,152,000 ($1.16 a share) of 1958.

Treasurer Charles W Bliss puts the figure at "slightly in excess of $4 a share figured on a comparable basis with 1958." Actually it will be closer to $4.15 since profits for Sterling Foundry will be consolidated for the first time. W & S bought a 73% interest in Sterling in 1938, acquired the remainder last year. Sterling makes iron alloy castings with about 40% of output sold to outside companies.

Treasurer Bliss says all three of the major W&S product lines shared in the 1959 gain. Biggest increase was shown by machine tools but the construction and textile machinery lines also did well.

W & S makes both manually operated turret lathes and the automatic variety known as single spindle machines. Last year these metal cutting tools accounted for over half of total volume. Charles Bliss adds: "The automatic machines are really our star performers."

Added postwar, construction machinery has become increasingly important for W & S with a 1959 volume of $20,000,000. The main products in this category are hydraulic earth moving machines, tradenamed Gradalls, and the smaller, less expensive Hopto excavators, a line acquired in 1957.

The smallest but most inclusive W & S line is textile machines which do everything from preparing the fibers to the weaving operation itself. Moneyman Bliss says: "Our textile machinery demand was up in 1958 [to a $3,000,000 volume] and again last year [to $4,000,000] and I expect it will show yet another increase in 1960."

All in all "1960 looks good" to executive Bliss. Warner & Swasey which built up steel supplies "felt practically no shortage during the strike." Because some customers encountered steel problems of their own "we felt a lull in new orders in November and December but our shipments were not hurt. With the pent-up demand, January orders definitely picked up and both our sales and profits continue to ad-

Hopto digs for Warner & Swasey

vance." If optimistic outlook is borne out, observers figure 1960 results may reach or top the record 1956 profit of $4,400,000 ($4.44 based on the present 992,000 shares outstanding).

To Boston and Britain. A recent development "which someday might become important" was the purchase last month of a 25% interest in Wang Laboratories, which Charles Bliss describes as "another one of the small Route 128 electronics companies in Boston." He adds: "With our investment we have first call on any of Wang's new products." Already W & S has use for one: a tape control device for the single spindle automatic machines.

Last April W & S went overseas and formed a new company in conjunction with Asquith Machine Tool Corp of Halifax, Britain. Also located in Halifax, the neophyte will build "our best line" or the single spindle automatics for United Kingdom, European and other world markets. W & S president Walter K Bailey feels "this move will enable us to tap foreign markets from which we have been practically excluded because of the many advantages enjoyed by our foreign competition."

With improvements slated for both home and abroad Warner & Swasey directors last month raised the quarterly dividend a dime to 40¢. This brings it back to the peak regular rate paid in 1956 and 1957; however in those years 40¢ extra was tacked on at year-end. Charles Bliss says: "We are not yet quite back to our traditional 40-to-45% payout but an increase will depend on the outlook at the end of this year."

Even at the present rate, the stock yields nearly 5%. It sells around 33 over-the-counter, roughly eight times estimated 1959 earnings. Treasurer Bliss admits "we discuss listing the stock periodically. We will do it someday but I just don't know when."

Around the Globe with Gillette

Boston Blademaker Sharpens Finances with Ball Points and Home Perms

DIVERSIFICATION is the order of the day for many modern corporations but not many have parlayed their efforts into a dominant position in all their major fields of endeavor. Yet that is the distinction of the 59-year-old Gillette Company, born, bred and still based in blueblood Boston. Long the leader in the shaving world, Gillette has also attained the top position in home permanents and related women's hair preparations through the acquisition of Toni Company in 1948 and written a big chapter in ball point pens with 1955-purchased Paper Mate Companies.

While Toni and Paper Mate were already well established at the time of their acquisition, Gillette has done a remarkable job of maintaining and boosting their industry position in the face of hot competition—a job similar to the steady strengthening of a strong position accomplished in the Gillette shaving line. This triple-threat performance brings to light a very important point: while at first glance Gillette's diversification-by-purchase may seem a haphazard move into unrelated products, actually the acquisitions fit in handsomely with Gillette's basic skills and knowhow.

All three lines depend on the same kind of marketing techniques. By their very nature the principal products generate a constant replacement demand—an enviable situation provided consumer loyalty can be won and maintained. But in each field competition is extremely strong. Gillette has met this challenge by applying the same techniques it always has to its original line; namely, heavy advertising and the continual introduction of new products.

Results have been gratifying for the company. Gillette has captured some 60% of the domestic razor blade market, up from 52% a decade ago. Toni is still far & away the leader with roughly two-thirds of the home wave market despite the big influx of other makers into this field. And Paper Mate now claims a major portion of ball point sales in the $1-to-3 bracket and the greatest dollar volume of all its pen competitors.

Top Shaver . . . Shaving equipment is still the company's No 1 line, brought in 60-to-65% of last year's "more than $200,000,000" volume. Somewhat less than 30% came from Toni products and 8-to-9% from ball point pens.

Gillette turns out its razors, blades and shaving accessories for domestic consumption at the company's main plant in the south end of Boston. A plant at Montreal caters to the Canadian market. The Toni products are manufactured at St Paul while Paper Mate makes its pens in Santa Monica, Cal. In addition Gillette maintains a vast foreign organization with plants and sales subsidiaries in 22 different countries.

President of this impressive or-

ganization is amiable 54-year-old Boone Gross (see cover). A West Point graduate who entered business in 1928, Texas-born Gross was president of Hiram Walker's Gooderham & Worts division in 1939-42, then served four years as colonel in the Ordnance Corps. He resumed civilian life as a vice president at Gillette, moved up to president of the razor division in 1952 and two years ago assumed the presidency of the entire company.

One of his main tasks is to keep the various product lines fresh and alive in the eyes of the public. Indeed not a year has gone by in over a decade without the introduction of some new product. In 1957 the company supplemented its Toni line with Adorn hair spray, now the largest seller on the market. The next year Paper Mate brought out four new pens ranging from the gold-plated Capri Mark IV to the non-refillable Schoolmate utility pen. Last year saw the debut of the Holiday ball point (with jumbo refill) as well as a varied line of premium-priced Toni hair accessories.

. . . Tops Estimates. But the most spectacular of 1959's new products are the double-edged, adjustable razor introduced in June and the Super Blue blade which came on the market just before Christmas. President Gross declares: "The razor's been the most sensational surprise of anything we've seen in a great many years. Our sales are just about three times our original estimates."

As for the blade: "It's a little soon to tell how that's going but the early reports are certainly favorable. One friend has told me it's so smooth he has more than once stopped and opened up his razor to be sure there was a blade in it. Eventually we expect it to account for more than half of all our blade business."

Like all new blades, a supply of the new Super Blues was carefully tested before hitting the market in the well-staffed Gillette shaving labs where the company has "hundreds of people shaving every day." Of course only a few of the 5 billion blades Gillette makes each year under the trade names Gillette, Valet and Tech are tested. As ordnance veteran Gross notes: "Our products are like ammunition. The only way to test 'em is to destroy them. It's the old proof of the pudding stuff."

With the aid of the new razor (though of course not yet from the blade) and increased support from the wave and pen sets, Gillette enjoyed a "record sales year" in 1959 while preliminary earnings of $3.34 a share were the second best ever. The peak profits year was 1956 when the company tallied $3.40 a share on a $200,700,000 volume. The following year sales dipped 3% while earnings sloughed off to $2.80. In 1958 however, although sales eased anew by 1% to $193,900,000, the company managed to tighten its belt and strengthen its margins with profits climbing to $2.97 a share.

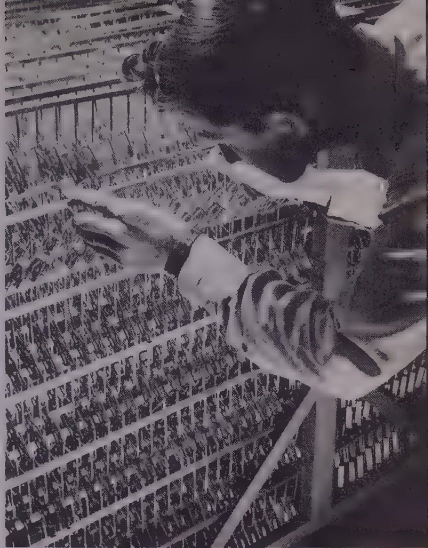
President Gross explains the recent Gillette fortunes: "1956 was an unnatural year and has thus been hard to live up to. We announced a price increase for our blades effective at the beginning of the following year. Naturally all our dealers

began to stock up at the end of 1956 and this gave us a big bulge in sales and earnings and made for some inventory adjustment the next year."

Toni Tonic. But this was not Gillette's only problem. In recent years the Toni division has felt a definite crimp from the trend toward straighter female coiffures. Consequently, even though Toni has managed to boost its share of the home permanent market, the total market itself has declined and so have Toni home perm sales. To help smooth such unavoidable kinks Toni initiated a cost-cutting program "which markedly reduced our operating expenses and gave us lower cost production." Thanks to this and "emphasis on new products like Adorn and products with bigger margins" the 1959 Toni results were "up quite a bit from 1958."

Another factor in the Toni recovery has been "better use of advertising" which has benefited not only Toni but all Gillette lines. All told the company spends around $29,000,000 on advertising in the US and Canada and an additional $7,000,000 abroad. This includes everything from full-page ads in national magazines to radio disc jockey shows. But Gillette itself is best known for its sports coverage (about $10,000,000 a year) on both TV and radio.

Aside from its susceptibility to changing hair styles, Gillette also faces keen competition in all its lines. For instance, Paper Mate is rivaled not only by ball point big-timers like Scripto and old-line pen makers like Parker and Sheafer but by draw-



Razors on inspection route

erfuls of little known, low-priced (and often inferior) brands.

Streamlined Script. As in Toni, Gillette has effected a big cost-cutting program in its Paper Mate division. One step was to consolidate all manufacturing facilities in one new plant at Santa Monica. In December the company shut down its Puerto Rico operation which made only parts and refills. Another step was "to streamline our line." Now manufacturer Gross notes "Paper Mate is in much better shape."

In its shaving business Gillette gets competition both from other regular blade and razor makers and from the electric or "dry" shaver. As for the latter, shaving expert Gross feels "they hit their peak two years ago and are now beginning to drop off. I figure about 60% of electric shavers sold are gift items. The important thing is how many are in use." He does admit "they had us worried

for a while but the truth of the matter is they don't give as good a shave. We made one back in the Thirties but we have no intention of going into that market again until we can produce one that will give as good a shave as a wet razor. So far no one has been able to do that."

In the "wet" field, Eversharp is No 3 and the most recent threat of competition comes from Philip Morris which seeks to acquire second-ranking ASR Products Corp (Gem, Pal, Personna) with plans to spruce up its operations. Boone Gross comments: "I don't believe Philip Morris can do too much better with it, but we'll certainly watch it like a hawk. Actually I'd welcome a little more wet shaver competition. If the other blade makers would get in with a good advertising push, I think it would help the whole market."

Proprietary Labs. With one eye on competition, Gillette also keeps another eye out for new endeavors of its own. This philosophy led directly into Gillette's most recent diversification—Gillette Laboratories. This is a proprietary drug project which Boone Gross likes to call "a get-our-feet-wet venture." Set up in 1957 to market Thorexin cough remedy and cold capsules for the Upjohn Company, Gillette Labs contributes only a minute amount to total company volume and still operates "at a small loss. However we're constantly looking for more products which we could distribute and the division has an interesting future potential."

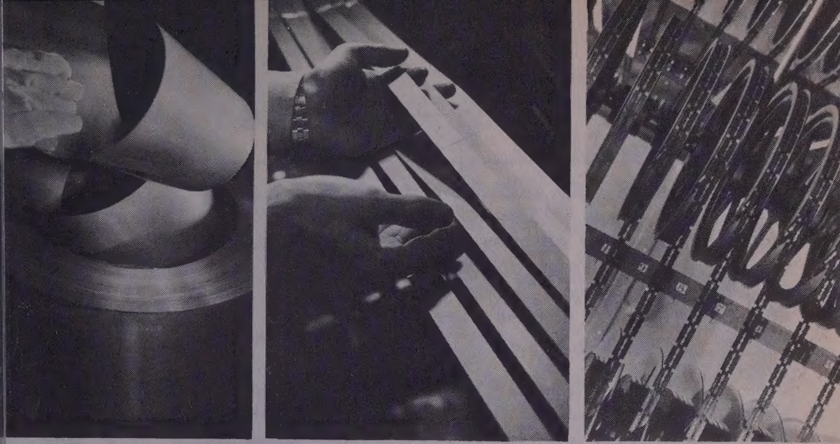
Another interesting facet of Gillette is its Harris Research Labs. Along with its "long-range exploratory research program" Harris reinforces the research work done by the divisional labs. About 50-to-60% of its business is in work for other customers.

One of the current major Harris efforts is in the field of depilatories "which we have been doing work on for years. We once brought over some gunk from trees along the Amazon. We heard mothers wiped their babies' heads with it to remove their hair. The only trouble was that like all depilatories it eventually took the skin off too."

Razor's Edge. Such activities are just extra built-in insurance for far-flung Gillette. Another big insurance factor is "our geographical distribution." In fact slightly more than half of company profits are derived from its foreign operations (financial results are consolidated on a world-wide basis). President Gross notes: "If one spot goes sour we always have another good one to make up for it."

Another bonus from its foreign operations is that Gillette sales—particularly blades—tend to reflect the rising standard of living abroad "to an amazing degree. We are growing at a much faster rate in our foreign operations than domestically."

But foreign operations, too, are not without problems. One of these is currency devaluation. Last year it hit Brazil which is "our largest Latin American operation." Thus, "despite the fact our foreign operations and profits were larger in 1959,



From strip to blade

when translated back into US dollars they will show up as less than 1958 on our income statement."

Another problem is foreign taxes. "Anytime they get higher than 52% abroad, it hurts us." Last year President de Gaulle's austerity program upped the French rate to "well over 52%." Even so Gillette considers foreign business valuable and profitable enough to warrant considerable expansion. The company is now building a $1,000,000-plus plant in Colombia and "is considering plants in two or three other countries."

Of course there will also be considerable US expansion. The company recently finished a new chemical plant for the Toni division in Chicago plus a new research building in Boston. And with operations worldwide running "at near peak capacity" expenditures for the next two years are expected to run "substantially in excess of depreciation." But the company will have no trouble financing this. Profit margins in the past five years have averaged a hefty 28-to-34%. In addition the company has a fat $60,000,000 in cash and liquid securities (including foreign working capital and reserves for taxes) up from $52,000,000 the year before. There is no debt ahead of the 9,300,000 shares of Gillette common which trade on the Big Board around 62.

Nor does the company expect expansion to affect its dividend policy. In the last five years Gillette has paid out about 70% of net earnings in dividends. In October directors upped the quarterly dividend to 62½¢ from the previous rate of 50¢, at the same time voted a 37½¢ year-end extra.

As for 1960 president Gross expects "it will compare favorably with 1959. We should do better at home and our foreign business looks better but I can't make any further predictions — especially when you have to figure such things as Fidel Castro, French taxes and the devaluation of the Brazilian cruzeiro."

HOUSTON NATURAL CASTS GAS GLOW

The gentleman in the adjoining picture is Willard Amann who is manager of technical services for Houston Natural Gas Corp. He deals largely with industrial, farm and business customers but in this instance he has just made a residential sale. The willing customers are himself, wife Sue (a former Houston Natural home service advisor) and son Jay (no company affiliation yet). The Amanns have installed a gas light in front of their Houston home which will bring an extra 75¢ monthly in gas revenues to papa's employer.

Houston Natural launched an employe-conducted gas light campaign last Fall. President John H Wimberly phoned from Houston last week "well over 9,000" lights are now connected and "we're selling about 300 a week." The standard type light costs about $50 including installation (handled by the company).

While the operating cost to each individual is small change these inflated days, the total gas light intake comes to a nice piece of extra pocket money for the Texas utility—nearly $85,000 a year revenues just from the lights installed so far. Better yet, the lights (most of which are designed to burn round the clock) "provide a new base load not subject to daily or seasonal fluctuation."

This is just one example of Houston Natural's manifold efforts both to build up its load and to distribute it more evenly. One obvious potential offset to heavy winter heating demand would be gas-operated air conditioning. Enthuses John Wimberly: "We're just getting our feet wet on gas air conditioning. But within the past month we've put in a new incentive rate which is the lowest we ever offered and it should help us do a job."

But the biggest success in year-round load building comes from industrial sales. Happily states headman Wimberly: "We've added an awful lot of industrial business recently. But remember, most of the deliveries have begun since October and the biggest of all, the Shell refinery here, only started to take gas the first of this month. So it will be next year [fiscal years start August 1] before we feel the full impact. We will have added about 150,000,000 cubic feet of deliveries a day and in the longer run about 175,000,000." This impressive new business alone will represent close to a 50% boost over Houston Natural's 1959 average delivery rate.

Ever since the 1956 purchase of Houston Pipe Line Company, its chief gas supplier, which enabled the company to effectively go after such wholesale

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customers (IR May 28, 1958), Houston Natural has eagerly pushed its industrial volume and "it's continuing to go up substantially. For the past year industrial sales were up to 53% of total revenues. We haven't figured it out exactly but when all this new business gets on the line the ratio to residential sales should be 60-40." As an interesting Texas-style sideline, the utility also operates an oil & gas production and exploration subsidiary.

The Pipe Line integration also helped Houston Natural push its earnings up rapidly to a record $3,035,000 or $1.70 a common share on $34,400,000 sales in the July 1958 fiscal year. But during the next year business activity (especially oils & chemicals) along the Texas Gulf Coast "moderated somewhat" and slowed Houston Natural's sales growth. Even so, fiscal 1959 revenues were up to $36,600,000 but costs went up much faster and profits dropped to $2,700,000 or $1.45 on 95,000 more shares outstanding—still the second-best of the company's 34 years.

The Company won a number of rate increases last year but they were "mostly only in effect during our second half" and the key one for the city of Houston came through near the very end of the fiscal year. Some more boosts are taking effect in fiscal 1960.

John Wimberly sums up: "Very roughly, our new industrial business will add about $1,000,000 to net after taxes on a full-year basis and the rate increases also about $1,000,000. But in both cases we won't get the full effect till our 1961 fiscal year. And, of course, before you just add these amounts to our present profits, you must keep in mind the offsets. Our cost of gas is going up all the time. Also we sold $10,000,000 worth of new $5.65 preferred to institutional investors last Fall. And the number of common shares is constantly increasing. We added 76,000 shares in the calendar year 1959 [mostly on preferred conversions] so we now have 1,471,000 shares outstanding" which trade over-the-counter around 29.

Even with the "offsets," Houston Natural earnings have started to climb back again with $1.52 netted in the twelve months ended October. Both revenues and income are now "rather well" ahead of last year and "in the absence of very bad [ie, not cold enough] weather, we can look for a further increase."

VICARIOUS LIVING

This country seems to be full of organization men who think they would like to be in business for themselves but who can't afford to take the necessary risks to try it—or who are discouraged by the contemplation of Dun & Bradstreet's weekly report of business failures.

It's true that making a success of your own business usually requires a combination of capital, the right temperament, know-how, hard work, and long hours. And not very many people make the grade. But *nil desperandum*, as Mr. Micawber would say. Never despair.

If you can't be sole owner of your own business, be part owner of someone else's business. In other words, buy some shares of common stock in a good company. There are risks as well as rewards in investing, of course. But if you choose your securities with care, the risk in investing is likely to be far less than the risk involved in starting a business of your own. And investing is infinitely easier.

It's easier largely because you don't have to do it all yourself. You can have all the help you want simply for the asking, with no strings attached. Our Research Department is prepared to provide you with facts and figures about almost any company that interests you—as long as its stock is in public hands.

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